

Insurance Beneficiaries: There's more than one choice!

A beneficiary is the person or entity you name (i.e., designate) to receive the death benefits of a life insurance policy. Some states require that your beneficiary have an insurable interest in your life or be related to you (at least at the time the contract is initiated), while others have no such restriction.

If you do not want to name an individual or entity as your beneficiary, you can name your own estate. The proceeds will then be distributed with your other assets according to your will. You should note, however, that naming your estate as beneficiary may have disadvantages. For example, in many states, life insurance proceeds are exempt from the claims of your creditors when there is a named beneficiary, but not when your estate is your named beneficiary.

Revocable and Irrevocable Beneficiaries

The beneficiary can be either revocable or irrevocable. A revocable beneficiary can be changed at any time. Once named, an irrevocable beneficiary cannot be changed without his or her consent.

Primary and Contingent Beneficiaries

You can name as many beneficiaries as you want, subject to procedures set in the policy. The beneficiary to whom the proceeds go first is called the primary beneficiary. Secondary or contingent beneficiaries are entitled to the proceeds only if they survive both you and the primary beneficiary. It's important to name a contingent beneficiary because if you and your primary beneficiary die simultaneously, the Uniform Simultaneous Death Act provides that the beneficiary will be presumed to have died first. By naming a contingent beneficiary, you avoid having the proceeds flow to your estate.

Multiple Beneficiaries

You may name multiple beneficiaries if you choose. There are no legal restrictions (and few company restrictions) on the number of beneficiaries you can designate.

If you name multiple beneficiaries, you must also specify how much each beneficiary will receive. You may not want to give each beneficiary an equal share, so you must state how the proceeds should be divided. Because of the numerous interest and dividend adjustments that the insurance company must make, the death benefit check often does not equal the policy's face value. So, it's wise to distribute percentage shares to your beneficiaries, or to designate one beneficiary to receive any leftover balance.

How do you name or change a beneficiary?

When you buy life insurance, you will indicate your beneficiaries on the application. When changing a beneficiary, the insurer will provide you with a beneficiary designation form. Unless one or more of the beneficiaries is irrevocable, you only need to list the names of the beneficiaries, sign the form, and date it. This will automatically revoke any previous designations by writing this in on the change-of-beneficiary form. Be sure to check and update your beneficiary designations upon certain life events (e.g., divorce, remarriage, the birth of children).

Don't make the mistake of thinking that you can change your beneficiary in your will. A change of beneficiary made in your will does not override the beneficiary designation of your life insurance policy. If you want to change the beneficiary of your life insurance, execute a change-of-beneficiary form. Do not rely on your will to do so.

Why Designating the Proper Beneficiary is Important

You should name both primary and contingent beneficiaries. If you have not named one or more beneficiaries, the proceeds pass to your estate at your death. Proceeds paid to your estate are subject to probate and will incur all of the expenses and delays associated with settling an estate. But named beneficiaries receive proceeds almost immediately after your death, and probate is bypassed. In addition, proceeds passing to your estate are subject to the claims of creditors. Most states exempt life insurance proceeds from creditors when there's a named beneficiary.

Other Considerations When Designating Beneficiaries

If you become incompetent, you cannot name or change a beneficiary. And you're incompetent only if you are legally declared to be so. The test is similar to the test regarding the making of wills or any other legal contract (i.e., do you have the capacity to understand your actions?).

Do not name a minor as a beneficiary unless you also appoint a guardian in your will or use a trust. If you do name a minor as a beneficiary, and you do not appoint a guardian or use a trust, the probate court will appoint a guardian for you. In states that have adopted the Uniform Transfers to Minors Act, it's possible to create a custodial account of the minor after the death of the insured to receive the child's share of the death proceeds.

Your right to change a beneficiary may be limited by a divorce decree or settlement agreement. In some cases, divorce allows a policy owner to change the beneficiary, even if the beneficiary is irrevocable. In other cases, the policy owner may be prohibited from changing the beneficiary or may be required to name a divorced spouse or children as irrevocable beneficiaries.

If You're a Minor

In some states, if you (the insured) are a minor, you can name only a certain class of persons as beneficiaries. That class generally includes your spouse, parents, grandparents, and brothers or sisters. Your parents or legal guardians will also have to sign the application for life insurance.

We're here to help! [Contact Sentinel Benefits & Financial Group](#) for the guidance you need.

This article is not intended to be exhaustive nor should any discussion be construed as legal or financial advice.
